Alberta

Alberta Heritage Savings Trust Fund

Annual Report
2008–2009

Government of Alberta

Heritage Fund

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Additional copies of this report and copies of the quarterly reports and a detailed list of investments on the Heritage Fund may be obtained by:

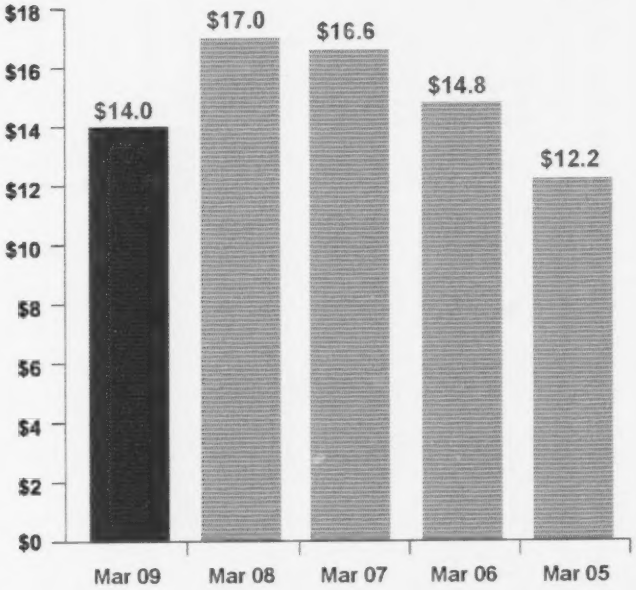
Visiting our website at: www.finance.alberta.ca

Or by writing:
Alberta Heritage Savings Trust Fund
Room 434, 9515 – 107 Street
Edmonton, Alberta, T5K 2C3

Or by calling: (780) 427-5364

TOPLINE RESULTS

VALUE OF THE HERITAGE FUND
(in billions)

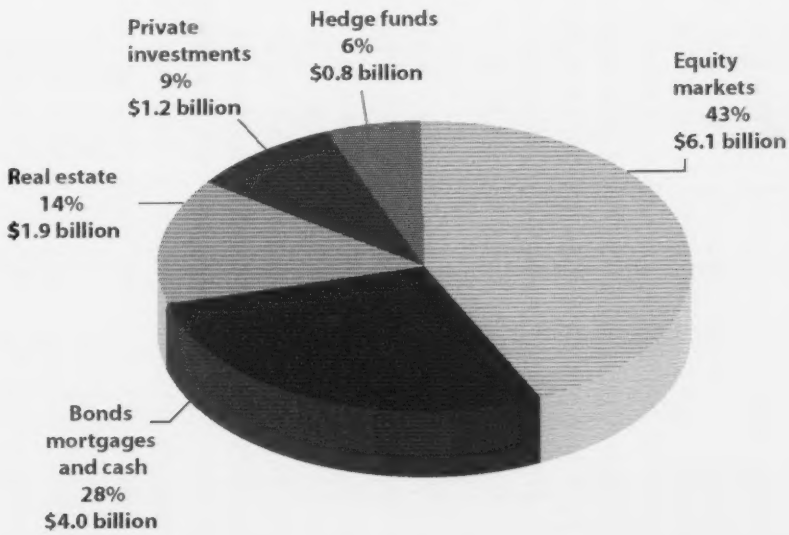


It was an extraordinary year in financial markets in 2008-09. The sharp decline in world equity markets and a global economic and credit crisis were the primary reasons for the decline in value of the Fund's net assets by 18.1% to $14.0 billion at March 31, 2009.

» The decline in value of the Fund's net assets by $3.0 billion includes actual losses of $2.574 billion and a decrease of $490 million in unrealized portfolio gains. The unrealized portfolio gains represent the profit that would be made if the assets were sold.

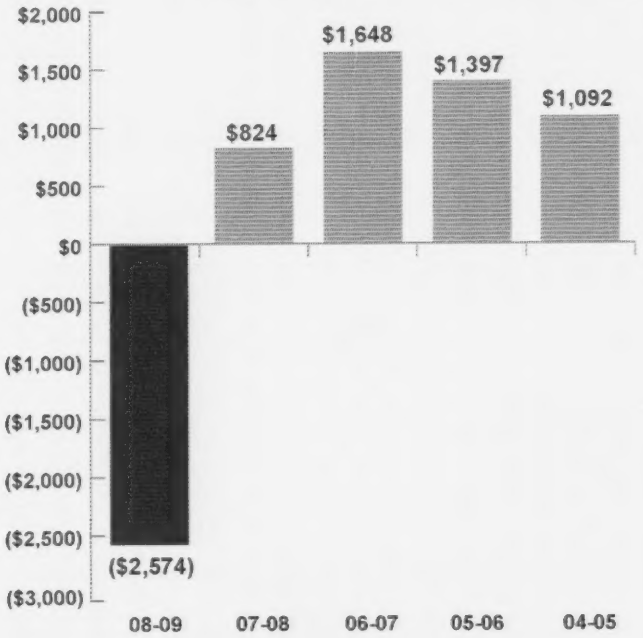
ASSET MIX
March 31, 2009

The Fund's diversified portfolio of investments insulated the Fund from the full impact of losses of 30% to 40% in world equity markets this year.


Private investments 9% $1.2 billion
Hedge funds 6% $0.8 billion
Equity markets 43% $6.1 billion
Real estate 14% $1.9 billion
Bonds mortgages and cash 28% $4.0 billion

The global economic crisis of 2008-09 and severe decline in world equity markets resulted in a record loss of $2.6 billion reported in the audited financial statements of the Fund.

NET INCOME (LOSS)
fiscal years ending on March 31 (in millions)



INVESTMENT RETURNS

The Fund posted a loss of 18.1% for the fiscal-year ending March 31, 2009.

The loss this year eroded the Fund's average annual return over five years to 2.6%, down from 11.1% reported last year. Over ten years the Fund's annual return is 3.5%.

The expected long-term return for the Fund is inflation plus 4.5%. In addition, the Fund's investment manager was expected to provide added value of 0.75% in 2008-09 increasing to 1.0% per annum starting in 2009-10.*

* Over the past ten years, inflation has averaged 2.2% per annum based on the Consumer Price Index (CPI).

Message from the Minister of Finance and Enterprise

It's a privilege to present the 33rd Annual Report of the Alberta Heritage Savings Trust Fund. The Heritage Fund is an important part of the province's fiscal framework and represents an ongoing legacy for all Albertans. It is central to government's commitment to Albertans to save for future generations. Under the skilled leadership of the Alberta Investment Management Corporation (AIMCo), the fund remains solid, well-diversified and focused on long-term investment returns, even in the face of challenging economic times.

2008-09 was an extraordinary year in the global economy. The impact of the sub-prime mortgage crisis, credit collapse and ensuing recession was felt around the world, and continues to this day. The resulting plunge in world stock markets by 30% to 40% impacted many investors, including the Heritage Fund. As a result of the upheaval in financial markets over the past fiscal year, the value of the fund declined by 18.1%, or $3 billion, to $14.0 billion at March 31, 2009.

The key to achieving long-run, sustainable performance is to maintain a diversified portfolio, an exceptional investment management team and a long-term focus. The fund's long-term investment strategy is sufficiently diversified to insulate it from the full impact of the market shocks when they occur, yet flexible enough to take advantage of market opportunities as they arise.

While this year was a difficult year for the Heritage Fund, Albertans can look forward to the future knowing that it is well managed and well positioned to take advantage of future opportunities.

(signed by)

Honourable Iris Evans
Minister of Finance and Enterprise

The Heritage Fund

LOOKING BACK

The government established the Fund in 1976 as a way to preserve Alberta's resource wealth legacy for Albertans.

The *Alberta Heritage Savings Trust Fund Act* states the purpose of the Fund is: "To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for Albertans."

When the Fund was initially created, a set percentage of non-renewable resource revenue was transferred to the Fund. Transfers stopped after 1986 due to budget pressures from an economic slow-down in Alberta.

From its creation until the mid-1990's, a portion of the Fund was used to support capital projects around the province. Kananaskis Country, senior's residences and major health care facilities are examples of projects funded from the Heritage Fund that are still benefiting Albertans today. As well, in the early-1980's there were transfers of $300 million to the Alberta Heritage Foundation for Medical Research Endowment Fund and $100 million to the Alberta Heritage Scholarship Fund. The combined value of these endowments today exceeds $1.8 billion. They continue to support health research and advanced education in the province.

In the mid-1990's, the mandate for the Fund was changed after extensive consultation with the public. The Fund was restructured into an endowment to produce long-term financial returns and the transfers for capital projects ended. Income from the Fund is used for Albertans' priorities.

After Alberta's debt was paid off, inflation proofing the Fund began. Every year, a portion of the Fund's income is retained in the Fund to help preserve the purchasing power of the Fund from generation to generation. As well, the government began making Heritage Fund contributions from budget surpluses.

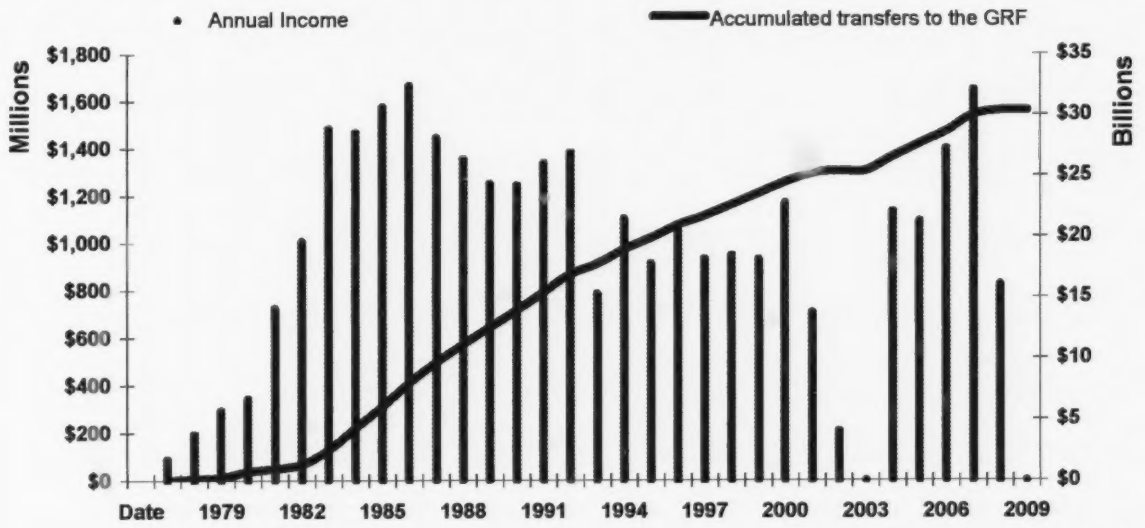
Since March 31, 2005, the government has transferred over $3.9 billion from surpluses to the Fund, which includes $1 billion to support the Access for the Future program.

TODAY

The Fund is invested in a well-diversified pool of investments that continues to ensure that Alberta's resource wealth of today benefits current and future generations of Albertans.

Each year, the government transfers the net income of the Fund, less the amount retained for inflation proofing, to the province's General Revenue Fund (GRF) where it is spent on Albertans' priorities, such as education, health care and infrastructure. The inflation proofing helps prevent the Fund's value from being eroded by inflation which means that future Albertans will get the same benefit as Albertan's enjoy today.

The graph below shows the income made available for Albertans' priorities.



The vertical bars show the annual investment income earned by the Fund in each of the past 33 years (in millions). The horizontal line shows the accumulated transfers to the GRF (in billions). Since the Fund's inception, over $30 billion dollars has been transferred to the GRF for Albertans' priorities.

Fiscal 2008-09 was a difficult year for the Fund's investments as the global economic crisis caused losses in the Fund. As a result, the Fund did not generate positive income this year so no funds were transferred to the GRF. However, as the graphs shows, this is only the second year in its history that the Fund did not provide income to Albertans. The Fund has a well-establish history of helping to support Albertans' priorities.

PLANNING FORWARD

The legislated mandate of the Minister is to be a prudent steward of the investments of the Fund so that Alberta's legacy is protected.

Starting on April 1, 2009, the Minister of Finance & Enterprise approved the following new asset mix for the Fund.

Equities	35% to 70%
Money market and fixed income	15% to 45%
Inflation sensitive and alternatives	15% to 40%

The new asset mix marked the end of a comprehensive review of the Fund's assets. Instead of specific targets for asset classes, the mix was changed to ranges with a minimum and a maximum. The new mandate gives the investment management team at AIMCo more latitude in selecting investments that can deliver the most benefit to Albertans. The inflation sensitive and alternatives category includes real estate, infrastructure, real return bonds, timberland and hedge funds.

The management team at AIMCo is putting a large emphasis on enhancing their risk management capabilities. The Department will be supporting AIMCo in these efforts to ensure that the risks in the Heritage Fund are clearly identified and managed. For more information on the Fund's 2009-12 Business Plan, including a detailed discussion of the asset mix, please visit our website at: www.finance.alberta.ca.

The 2008-09 Year in Review

(April 1, 2008 to March 31, 2009)

At March 31, 2009, the net assets held in the Fund totaled $13.838 billion, at cost, and $13.980 billion, at fair value. The Fund's cost primarily includes the purchase price of the various assets adjusted for writedowns. The Fund's fair value represents what those assets would be worth if sold.

At the start of the fiscal year, the net income of the Fund was originally forecast to earn $769 million. However, the global financial crisis, recession and declining commodity prices resulted in an actual net loss of $2.574 billion. This is recognized in the Fund's audited financial statements, on a cost basis. Under legislation a portion of the Fund's net income is retained in the Fund for inflation proofing. However, since the Fund recorded a loss, no amount was retained in the Fund.

The difference between the Fund's cost and fair value of net assets represents unrealized gains. At March 31, 2009, net unrealized gains declined by $490 million to $142 million from $632 million at the beginning of the year. Including the decline in unrealized gains, the net loss, on a fair value basis, was $3.064 billion.

The Fund's return this year was negative 18.1% compared to negative 0.7% last year. Approximately 90% of the Fund's net loss came from investments in publicly traded equities which were severely impacted by the global financial crisis.

The table below summarizes the overall change in the net assets of the Fund.

Changes in Net Assets
For the Year Ended March 31, 2009
(in millions)

	Fiscal 2008-09		Fiscal 2007-08
	Budget	Actual	Actual
Investment income (loss)	$ 835	$ (2,501)	$ 888
Investment expenses	(66)	(73)	(64)
Net income (loss)	**769**	**(2,574)**	**824**
Transfers to the General Revenue Fund (GRF)	(490)	-	(358)
Income (loss) retained in Fund	279	(2,574)	466
Transfers from the GRF	-	-	918
Change in cost of net assets	**279**	**(2,574)**	**1,384**
Cost of net assets, beginning of year	16,412	16,412	15,028
Cost of net assets, end of year	**$ 16,691**	**$ 13,838**	**$ 16,412**
Accumulated unrealized gains		142	632
Fair value of net assets, end of year		**$ 13,980**	**$ 17,044**

INVESTMENT MANAGEMENT PERFORMANCE

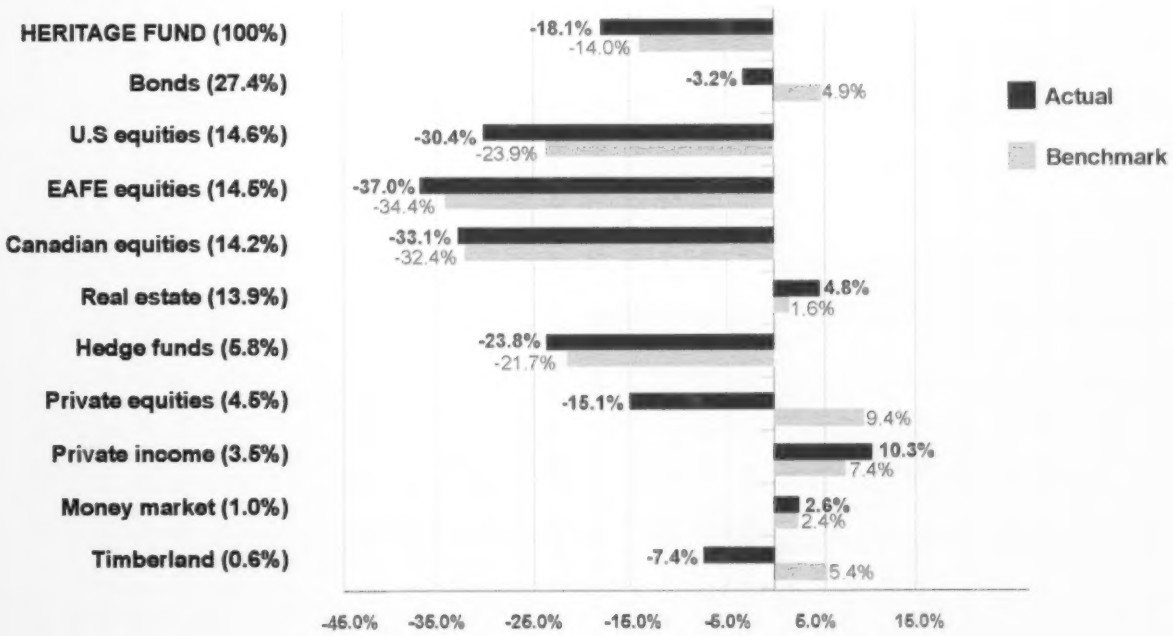
The Fund's actual investment return for each asset class, such as bonds or U.S. equities, is compared to a market based benchmark such as the DEX Universe Bond Index or the S&P 1500 Total Return Index. The purpose of this comparison is to measure the valued added or lost from investment management decisions. The overall actual return of the Fund is compared to the overall benchmark policy return. The overall benchmark is determined by multiplying the benchmark return for each asset class by its percentage of the Fund's total portfolio. The overall policy benchmark return this year was negative 14.0%.

In seven of the past ten years, the Fund's investment management team has out-performed its overall policy benchmark. However, this year was an unusually difficult one for the investment manager which under-performed its policy benchmark. The Fund's actual loss of 18.1% was 4.1%, or $700 million, greater than the overall policy benchmark loss of 14.0%. Over five years, the Fund's actual return was 2.6% compared to its policy benchmark return of 2.9%. One of the main reasons for the Fund's under-performance this year relative to the benchmark was the Fund's exposure to credit. AIMCo had a significant allocation to corporate bonds in its fixed income portfolio compared to the benchmark, the DEX Universe Bond Index. It also had an exposure to credit through its structured equity products. The negative impact of credit on the Fund's value was due to the mark down of individual securities as a result of widening credit spreads and defaults. Investment in bonds comprised 27.4% of the total investment portfolio at March 31, 2009. The actual loss from the Fund's bond portfolio in 2008-09 was negative 3.2% compared to a positive return of 4.9% in the benchmark.

The public equity portfolio, including U.S., non-North American and Canadian equities, comprised 43.3% of the total investment portfolio at March 31, 2009. Actual losses from public equities were significant due to the severe decline in world equity markets during the year. The actual loss this year from U.S. equities was 30.4%, EAFE equities lost 37.0% and Canadian equities lost 33.1%.

In the chart below, the bars on the right compare the actual return against the benchmark return. The asset class and its percent of the total Fund is shown on the left. A description of the benchmark for each asset class is provided on page 34.

Comparison of Actual Returns to Benchmark Returns (in percent)
Year ended March 31, 2009



INVESTMENT INCOME (LOSS)

The table below shows the actual income or loss reported in the financial statements by asset class and by the type of income or loss. The investments and investment income or loss are recorded in the financial statements on a cost basis, which exclude unrealized gains and losses. During the year ended March 31, 2009, the Fund incurred losses from all asset classes except for real estate, money market and private income investments.

Summary of investment (loss) income, by asset class and type
For the year ended March 31, 2009
(in millions)

Asset class	Income, net of expenses (1)	Net Realized gain (loss) on investments (2)	Writedowns (3)	2009	2008
				($ millions)	
Public equities	$ 236	$ (1,954)	$ (634)	$ (2,352)	$ 127
Fixed income securities	253	(161)	(134)	(42)	303
Real estate	82	8	-	90	221
Private income	3	58	-	61	22
Hedge funds	1	(215)	(72)	(286)	99
Timberland	6	(17)	-	(11)	8
Private equity	(7)	16	(43)	(34)	44
Net income (loss) per financial statements	$ 574	$ (2,265)	$ (883)	**(2,574)**	**824**
Current period change in unrealized gains and (losses)				(490)	(921)
Net loss, fair value basis				**$ (3,064)**	**$ (97)**

(1) Includes interest, dividends, rental income and security lending income. Income of $574 million (2008: $614 million) is net of investment expenses totaling $73 million (2008: $64 million).

(2) The net realized loss on investments this year totalled $2,265 million (2008: net gain $435). The realized losses this year relate primarily to public equities impacted by the decline in world equity markets.

(3) Writedowns totalled $883 million (2008: $225 million). The cost of securities is written down where the market value has declined significantly below cost and the decline is not considered temporary. The majority of the writedowns relate to publicly traded equities and certain fixed income securities impacted by the global credit and liquidity crisis.

The table below shows the net income or loss of the Fund, on a cost and fair value basis, for each asset class. The fair value of investments provides information to assess the investment performance of the Fund against market-based benchmarks. Investment income on a fair value basis includes changes in unrealized gains (losses). On a fair value basis, the Fund recorded a net loss of $3,064 million for the year ended March 31, 2009, compared to a net loss of $97 million for the same period last year.

Summary of investment income (loss) at cost and fair value
For the year ended March 31, 2009
(in millions)

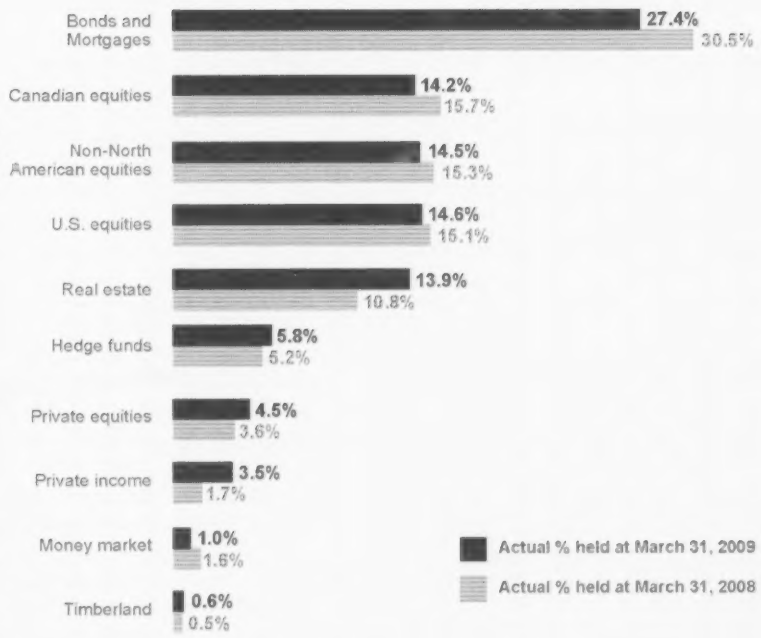
	Realized income (loss) cost basis		**Increase (decrease) in unrealized gains**		**Income (loss) fair value basis**	
	2009	2008	**2009**	2008	**2009**	2008
Canadian equities	**$ (669)**	$ 398	**$ (207)**	$ (318)	**$ (876)**	$ 80
Bonds and mortgages	**(42)**	294	**(123)**	(75)	**(165)**	219
Real estate	**90**	221	**(3)**	49	**87**	270
Hedge funds	**(286)**	99	**50**	(86)	**(236)**	13
Private equity	**(34)**	44	**(47)**	-	**(81)**	44
Non-North American equities	**(755)**	30	**(222)**	(346)	**(977)**	(316)
Private income	**61**	22	**(51)**	9	**10**	31
Money market	**-**	9	**1**	-	**1**	9
Timberland	**(11)**	8	**4**	(4)	**(7)**	4
U.S. equities	**(928)**	(301)	**108**	(150)	**(820)**	(451)
Investment income (loss)	**(2,574)**	824	**(490)**	(921)	**(3,064)**	(97)

INVESTMENTS

The chart on the right shows the changes in the Fund's asset mix from March 31, 2008 to March 31, 2009.

Over the year, investments in real estate, hedge funds, private equities and private income made up a larger proportion of the Fund's investments compared to last year. Bonds, mortgages and public equities comprised a smaller proportion of the Fund's assets compared to last year.

While the majority of the Fund's portfolio includes traditional investments like stocks, bonds and real estate, investments in hedge funds, private equities, private income and timberland are a growing part of the Fund. These assets are not as easily bought or sold as other types of investments, and have longer investment horizons. Therefore, they are not always readily available for purchase and it will take longer to build these portfolios.



The table below shows the fair value and cost of each asset class and the unrealized gain or loss at March 31, 2009 and March 31, 2008. Unrealized gains and losses represent the difference between the fair value and cost of the investment. Once securities are sold, unrealized gains or losses become realized and are included in investment income for the year. At March 31, 2009, the pool of unrealized gains had declined to $142 million, down $490 million from $632 million at the beginning of the fiscal year. Unrealized gains from real estate and U.S. equities primarily offset unrealized losses from bonds, mortgages, Canadian and non-North American equities.

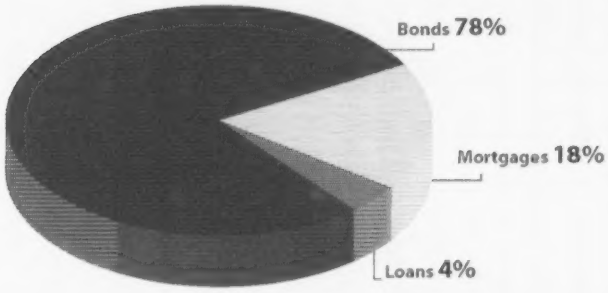
Summary of Net Assets

At March 31, 2009 (in millions)	March 31, 2009			March 31, 2008		
	Fair Value	Cost	Unrealized gain (loss)	Fair Value	Cost	Unrealized gain (loss)
Investments:						
Bonds and mortgages	$ 3,832	$ 3,998	$ (166)	$ 5,174	$ 5,217	$ (43)
Canadian equities	1,981	2,205	(224)	2,667	2,684	(17)
Non-North American equities	2,020	2,332	(312)	2,602	2,692	(90)
U.S. equities	2,044	1,819	225	2,573	2,456	117
Real estate	1,935	1,345	590	1,826	1,233	593
Hedge funds	813	782	31	891	910	(19)
Private income	483	484	(1)	605	559	46
Private equities	625	650	(25)	285	259	26
Money market	138	137	1	270	270	-
Timberland	90	67	23	78	59	19
Total Investments	13,961	13,819	$ 142	16,971	16,339	$ 632
Accounts receivable, net	19	19		73	73	
Net assets	$ 13,980	$ 13,838		$ 17,044	$ 16,412	

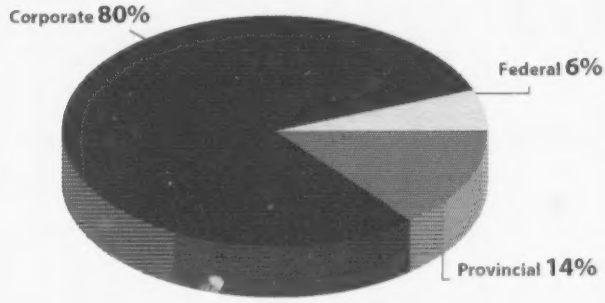
Fixed income investments

The fair value of fixed income investments totalled $3.832 billion, or 27.4%, of the total portfolio at March 31, 2009, down from $5.174 billion, or 30.5%, at the beginning of the year. This asset class includes bonds, mortgages and loans issued by many entities with corporate bonds making up the largest portion of the portfolio. The charts below summarize the fixed income portfolio by type of investment and issuer.

Summary of Fixed Income Holdings
(by type of investment)



Summary of Fixed Income Holdings
(issued & guaranteed by)



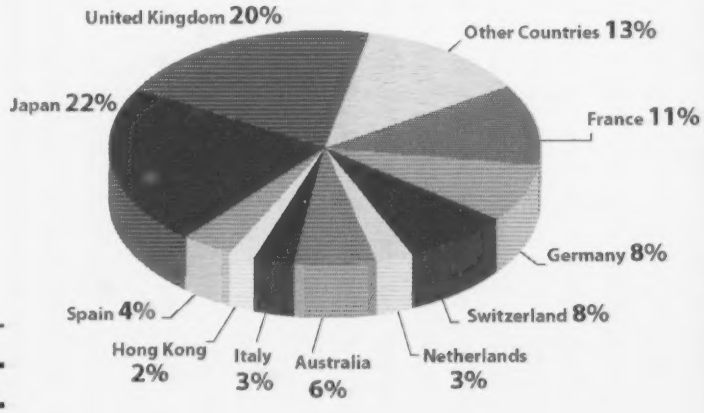
Public equities

The fair value of public equities comprised $6.045 billion, or 43.3%, of the total investment portfolio at March 31, 2009, down from $7.842 billion, or 46.1%, at the beginning of the year. The public equity portfolio includes shares of major corporations in Canada, the U.S., Europe, Asia and emerging markets. The table and chart below show the Fund's effective exposure to the major industry sectors in Canada, the U.S. and non-North American markets and the non-North American sector by country.

Heritage Fund's Public Equity Holdings by Major Industry

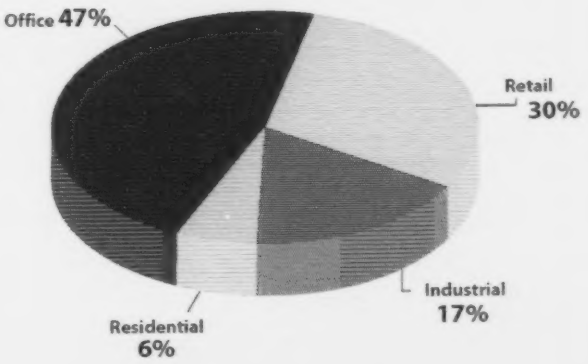
Percent - % March 31, 2009	Canada	United States	Non-North American
Consumer discretionary	5	9	10
Consumer staples	4	12	11
Energy	27	12	10
Financials	28	12	20
Health Care	-	15	10
Industrials	6	10	11
Information technology	4	18	7
Materials	18	4	7
Telecommunications	6	4	9
Utilities	2	4	5
	100	100	100
Fair Value ($ billions)	$ 1.981	$ 2.044	$ 2.020
Percent of public equities	33%	34%	33%

Heritage Fund's Non-North American Equities by Country

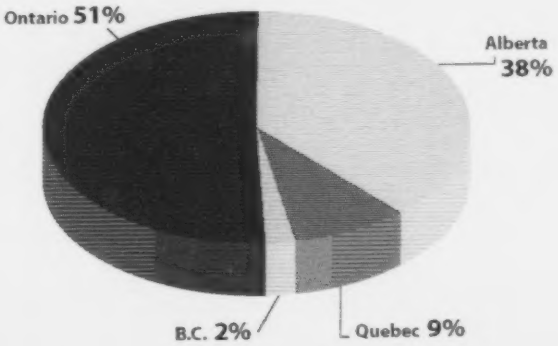


Real Estate
Real estate investments are held in the Private Real Estate Pool and Foreign Private Real Estate Pool. The fair value of real estate totalled $1.935 billion, or 13.9%, of the Fund at March 31, 2009, up from $1.826 billion or 10.8% at the beginning of the year. The following charts show the distribution of Canadian real estate investments by sector and by province.

Real Estate by Sector



Real Estate by Province



Absolute return strategies (Hedge Funds)
The estimated fair value of hedge funds comprised $813 million, or 5.8%, of the Fund at March 31, 2009, compared to $891 million, or 5.2%, at the beginning of the year. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and short selling overvalued securities.

Private equities
The estimated fair value of private equities totalled $625 million, or 4.5%, of the Fund at March 31, 2009 up from $605 million, or 3.6%, at the beginning of the year. Private equity investments primarily include buyout investments such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

Private income investments
The estimated fair value of private income investments comprised $483 million, or 3.5%, of the Fund at March 31, 2009, up from $285 million, or 1.7%, at the beginning of the year. This asset class provides a hedge against inflation and generally includes infrastructure related projects such as toll roads, pipelines and privately held utilities. These investments provide current income and capital gains designed to help mitigate inflation.

Money market
Money market investments include cash and short-term investments. They comprised $138 million, or 1.0%, of the Fund at March 31, 2009, down from $270 million, or 1.6%, at the beginning of the year. Cash includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) and underlying cash and short-term investments held in the Currency Alpha Pool and Tactical Asset Allocation Pool. The CCITF portfolio of investments includes primarily short-term fixed income securities.

Timberland
The estimated fair value of timberland investments totaled $90 million, or 0.6%, of the Fund at March 31, 2009, up from $78 million, or 0.5%, at the beginning of the year. Most of the timberland investment includes an interest in a limited partnership, which holds primarily timberland located in the Province of British Columbia. A small portion of the timberland investment is located outside Canada.

INVESTMENT EXPENSES

The day-to-day investment services for the Fund are provided by Alberta Investment Management Corporation (AIMCo), a provincial corporation in the Ministry of Finance and Enterprise. AIMCo invests the assets subject to legislation and the investment policies approved by the Minister of Finance and Enterprise. AIMCo manages the majority of the Fund's investments through pooled investment funds. While most of the investments are managed directly by AIMCo, some investments are managed by third party investment managers selected and monitored by AIMCo in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity.

Investment expenses include those costs and fees incurred to earn investment income of the Fund. Investment services provided directly by AIMCo are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Fund, investment policy oversight and treasury management services. A portion of these costs is charged to the Fund.

Investment expenses as a percentage of net assets are provided below. The increase in expenses primarily relates to the allocation of assets to more expensive investment products like hedge funds, private equities and real estate. A smaller portion of the increase relates to additional costs associated with the creation of AIMCo.

Investment expenses
For the year ended March 31, 2009
(in millions)

	2009	2008
Total investment expenses	$ 73	$ 64
Expenses as a percent of net assets at fair value	0.52%	0.38%

Historical Summary of Operations
May 19, 1976 to March 31, 2009
(in millions)

Fiscal Year	NET INCOME (LOSS) (a)	TRANSFERS TO THE FUND: Resource Revenue Allocation	TRANSFERS TO THE FUND: Advanced Education Endowment New Deposits	TRANSFERS TO THE FUND: Advanced Education Endowment (b)	TRANSFERS (FROM) THE FUND: Section 8 (2) Income Transfers (c)		TRANSFERS (FROM) THE FUND: Capital Project Expenditures	Fund Equity, at cost
1976-77	$88	$2,120	-	-	-		($36)	$2,172
1977-78	194	931	-	-	-		(87)	3,210
1978-79	294	1,059	-	-	-		(132)	4,431
1979-80	343	1,332	-	-	-		(478)	5,628
1980-81	724	1,445	-	-	-		(227)	7,570
1981-82	1,007	1,434	-	-	-		(349)	9,662
1982-83	1,482	1,370	-	-	(867)		(296)	11,351
1983-84	1,467	720	-	-	(1,469)		(330)	11,739
1984-85	1,575	736	-	-	(1,575)		(228)	12,247
1985-86	1,667	685	-	-	(1,667)		(240)	12,692
1986-87	1,445	217	-	-	(1,445)		(227)	12,682
1987-88	1,353	-	-	-	(1,353)		(129)	12,553
1988-89	1,252	-	-	-	(1,252)		(155)	12,398
1989-90	1,244	-	-	-	(1,244)		(134)	12,264
1990-91	1,337	-	-	-	(1,337)		(150)	12,114
1991-92	1,382	-	-	-	(1,382)		(84)	12,030
1992-93	785	-	-	-	(785)		(84)	11,946
1993-94	1,103	-	-	-	(1,103)		(71)	11,875
1994-95	914	-	-	-	(914)		(49)	11,826
1995-96 (e)	1,046	-	-	-	(1,046)		-	11,826
1996-97	932	-	-	-	(756)	(d)	-	12,002
1997-98	947	-	-	-	(922)	(d)	-	12,027
1998-99	932	-	-	-	(932)		-	12,027
1999-00	1,169	-	-	-	(939)	(d)	-	12,257
2000-01	706	-	-	-	(706)		-	12,257
2001-02	206	-	-	-	(206)		-	12,257
2002-03	(894)	-	-	-	-		-	11,363
2003-04	1,133	-	-	-	(1,133)		-	11,363
2004-05	1,092	-	-	-	(1,092)		-	11,363
2005-06	1,397	-	1,000	750	(1,015)	(d)	-	13,495
2006-07	1,648	-	1,000	250	(1,365)	(d)	-	15,028
2007-08	824	-	918	-	(358)	(d)	-	16,412
2008-09	(2,574)	-	-	-	-		-	13,838
TOTAL	**$28,220**	**$12,049**	**$2,918**	**$1,000**	**($26,863)**		**($3,486)**	**$13,838**

a) The net income of the Fund and its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Ministry of Finance and Enterprise and theGovernment of Alberta.

b) The Access to the Future Act allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

c) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act, the net income of the Fund, less any amount retained in the Fund to maintain its value from inflation, shall be transferred to the GRF, annually in a manner determined by the Minister of Finance and Enterprise.

d) Includes amount retained in the Fund for inflation-proofing represented by the difference between net income and amount transferred to GRF. At March 31, 2009, the accumulated amount retained in the Fund for inflation-proofing was $1,562 million (2008: $1,562 million).

e) March 31, 1996 marked the end of the old structure of the Heritage Fund. In 1996-97, the Fund commenced a structuring process under a new framework. The new framework provided for a transition into more market based investments, inflation proofing the Fund and a long-term investment horizon providing for the greatest financial returns on investments.

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Auditor's Report

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2009 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(signed by Fred J. Dunn)

FCA
Auditor General

Edmonton, Alberta
June 4, 2009

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2009

(in millions)

	2009	2008
Assets		
Portfolio investments (Note 3)	$ 13,819	$ 16,339
Receivable from sale of investments and accrued income	20	21
Due from the General Revenue Fund	-	113
	$ 13,839	$ 16,473
Liabilities		
Administration expense payable	$ 1	$ 1
Liabilities for investment purchases	-	60
	1	61
Net Assets (Note 6)	13,838	16,412
	$ 13,839	$ 16,473

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF OPERATIONS AND NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2009

(in millions)

	2009		2008
	Budget	**Actual**	**Actual**
Investment (loss) income	$ 835	$ (2,501)	$ 888
Investment expenses (Note 8)	(66)	(73)	(64)
Net (loss) income (Note 7)	769	(2,574)	824
Transfers to the General Revenue Fund (Note 6b)	(490)	-	(358)
(Loss) income retained in the Fund (Note 6b)	279	(2,574)	466
Transfers from the General Revenue Fund (Note 6b)	-	-	918
Change in net assets	$ 279	(2,574)	1,384
Net Assets at beginning of year		16,412	15,028
Net Assets at end of year		$ 13,838	$ 16,412

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2009

(In millions)

	2009	2008
Operating transactions		
Net (loss) income	$ (2,574)	$ 824
Non-cash items included in net (loss) income	63	(166)
	(2,511)	658
Decrease in accounts receivable	1	32
(Decrease) increase in accounts payable	(60)	56
Cash (applied to) provided by operating transactions	(2,570)	746
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,323	1,507
Purchase of investments	(1,983)	(2,513)
Cash provided by (applied to) investing transactions	2,340	(1,006)
Transfers		
Transfers from the General Revenue Fund	-	918
Transfers to the General Revenue Fund	-	(358)
Decrease (increase) in amounts due from the General Revenue Fund	113	(105)
Cash provided by transfers	113	455
(Decrease) increase in cash	(117)	195
Cash at beginning of year	217	22
Cash at end of year	$ 100	$ 217
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 100	$ 217

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income and Expenses

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net realized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the period end exchange rates. Exchange differences on transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

(iv) The estimated fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and futures contracts are valued based on quoted market prices.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	2009			2008		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 100	$ 100	0.7	$ 217	$ 217	1.3
Currency Alpha Pool (b)	28	29	0.2	27	29	0.2
Tactical Asset Allocation Pool (c)	9	9	0.1	26	24	0.1
	137	**138**	**1.0**	**270**	**270**	**1.6**
Absolute Return Strategies (d)	**782**	**813**	**5.8**	**910**	**891**	**5.2**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	3,502	3,343	23.9	4,458	4,407	26.0
Private Mortgage Pool (f)	702	697	5.0	618	626	3.7
Loans, directly held (g)	137	137	1.0	141	141	0.8
Fixed Income Overlay Strategy Pool (h)	(343)	(345)	(2.5)	-	-	-
	3,998	**3,832**	**27.4**	**5,217**	**5,174**	**30.5**
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (i)	1,246	1,818	13.0	1,148	1,747	10.3
Foreign Private Real Estate Pool (j)	99	117	0.9	85	79	0.5
	1,345	**1,935**	**13.9**	**1,233**	**1,826**	**10.8**
Private Income (k)	**484**	**483**	**3.5**	**259**	**285**	**1.7**
Timberland (l)	**67**	**90**	**0.6**	**59**	**78**	**0.5**
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (m)	419	355	2.5	573	545	3.2
Canadian Pooled Equity Fund (n)	65	58	0.4	633	686	4.0
Canadian Equity Enhanced Index Pool (o)	260	234	1.7	319	335	2.0
Canadian Large Cap Equity Pool (p)	262	177	1.3	286	253	1.5
Growing Equity Income Pool (q)	505	496	3.6	146	145	0.9
Canadian Multi-Cap Pool (r)	518	482	3.4	727	703	4.1
Canadian Equity Overlay Strategy Pool (h)	176	179	1.3	-	-	-
	2,205	**1,981**	**14.2**	**2,684**	**2,667**	**15.7**
United States **(Schedule D)**						
US Structured Equity Pool (s)	1,023	1,226	8.8	1,551	1,684	9.9
US Small/Mid Cap Equity Pool (t)	256	243	1.7	303	298	1.7
Portable Alpha United States Equity Pool (u)	495	533	3.8	558	552	3.3
Growing Equity Income Pool (q)	12	9	0.1	44	39	0.2
US Equity Overlay Strategy Pool (h)	33	33	0.2	-	-	-
	1,819	**2,044**	**14.6**	**2,456**	**2,573**	**15.1**
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (v)	1,618	1,356	9.7	2,060	1,996	11.7
EAFE Structured Equity Pool (w)	386	355	2.6	522	502	3.0
Emerging Markets Equity Pool (x)	67	48	0.3	110	104	0.6
EAFE Equity Overlay Strategy Pool (h)	261	261	1.9	-	-	-
	2,332	**2,020**	**14.5**	**2,692**	**2,602**	**15.3**
Private Equities (k)	**650**	**625**	**4.5**	**559**	**605**	**3.6**
Total Investments (y)	**$ 13,819**	**$ 13,961**	**100.0**	**$ 16,339**	**$ 16,971**	**100.0**

Note 3 (cont'd)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2009, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2009	**2008**
Absolute Return Strategy Pool	86.3	84.2
Canadian Equity Enhanced Index Pool	82.0	80.6
Canadian Equity Overlay Strategy Pool	35.8	-
Canadian Large Cap Equity Pool	13.5	13.6
Canadian Multi-Cap Pool	48.3	48.3
Canadian Pooled Equity Fund	55.1	53.9
Canadian Structured Equity Pool	47.3	43.8
Currency Alpha Pool	37.2	37.2
EAFE Active Equity Pool	30.5	30.8
EAFE Equity Overlay Strategy Pool	35.8	-
EAFE Structured Equity Pool	42.0	41.8
Emerging Markets Equity Pool	16.9	22.1
Fixed Income Overlay Strategy Pool	35.8	-
Foreign Private Equity Pool (02)	87.5	87.5
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	84.3	87.2
Global Private Equity Pool (07)	85.2	85.2
Global Private Equity Pool (08)	88.2	88.2
Growing Equity Income Pool	54.7	53.4
Portable Alpha United States Equity Pool	82.2	80.0
Private Equity Pool	-	13.6
Private Equity Pool (02)	88.7	88.8
Private Equity Pool (04)	89.0	89.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.6	88.6
Private Income Pool 2	86.7	86.7
Private Income Pool 3	60.9	-
Private Mortgage Pool	35.4	33.9
Private Real Estate Pool	35.7	35.3
Tactical Asset Allocation Pool	83.0	82.1
Timberland Pool	87.6	87.6
US Equity Overlay Strategy Pool	35.8	-
US Small/Mid Cap Equity Pool	23.0	23.0
US Structured Equity Pool	45.2	42.5
Universe Fixed Income Pool	44.4	45.6

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

(b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(c) At March 31, 2009, the Tactical Asset Allocation Pool is comprised of cash.

(d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

Note 3 (cont'd)

(e) The Universe Fixed Income Pool is managed with the objective of providing above average returns compared to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2009, securities held by the Pool have an average effective market yield of 7.4% per annum (2008: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 6% (2008: 4%); 1 to 5 years: 36% (2008: 32%); 5 to 10 years: 28% (2008: 34%); 10 to 20 years: 16% (2008: 12%); and over 20 years: 14% (2008: 18%).

(f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.0%), specialty mortgages (1.9%) and provincial bond residuals (5.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2009, securities held by the Pool have an average effective market yield of 5.0% per annum (2008: 4.9% per annum) and the following term structure based on principal amount: under 1 year: 2% (2008: 3%); 1 to 5 years: 28% (2008: 12%); 5 to 10 years: 50% (2008: 61%); 10 to 20 years: 3% (2008: 5%); and over 20 years: 17% (2008: 19%).

(g) As at March 31, 2009, investment in loans, excluding accrued interest, includes the Ridley Grain loan amounting to $134 million (2008: $138 million) and the Vencap loan amounting to $2.8 million (2008: $2.5 million).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $134 million and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2009 amounted to $43.5 million (2008: $43.5 million). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $53 million, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(h) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, EAFE equities, major foreign currencies and styles and sectors. At March 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

(i) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(j) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(k) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(l) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

Note 3 (cont'd)

(m) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(n) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(o) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(p) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(q) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(r) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (m)).

(s) The U.S Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(m)).

(t) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded U.S. equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(u) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(v) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(w) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (m)).

(x) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.

Note 3 (cont'd)

(y) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2009 (in millions):

	Maturity			2009		2008	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	100%	-	-	$ 2,910	$ 9	$ 3,493	$ 10
Interest rate swap contracts	15%	47%	38%	1,088	(55)	2,511	(23)
Forward foreign exchange contracts	100%	-	-	2,635	(94)	2,779	(50)
Cross-currency interest rate swaps	36%	36%	28%	854	(32)	937	6
Credit default swap contracts	3%	56%	41%	5,398	(88)	4,819	(31)
Bond index swap contracts	100%	-	-	165	1	462	24
Futures contracts	100%	-	-	1,160	175	723	24
Swap option contracts	-	-	-	-	-	2,375	1
				$ 14,210	$ (84)	$ 18,099	$ (39)

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the Business Plan proposed the following asset mix policy for the Fund for 2008-09.

Equities	51%
Fixed income securities	24%
Inflation sensitive	18%
Cash and Absolute Return Strategies	7%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 NET ASSETS (in millions)

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2009	2008
Accumulated net income	$ 28,220	$ 30,794
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future (a)	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers (b)		
Income	(28,425)	(28,425)
Amount Retained for Inflation-proofing	1,562	1,562
	(26,863)	(26,863)
Capital Expenditures (1976-1995) (c)	(3,486)	(3,486)
	(30,349)	(30,349)
Net Assets, at cost	**$ 13,838**	**$ 16,412**
Net Assets, at fair value	**$ 13,980**	**$ 17,044**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the fund.

(b) During the period, the Fund sustained net losses of $2,574 million. In accordance with section 8(2) of the Act, the net income of the Fund, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the year.

(c) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 7 NET INCOME (LOSS) (in millions)

Investment income (loss) by asset class is as follows:

	2009	2008
Real estate	$ 90	$ 221
Private income	61	22
Timberland	(11)	8
Private equities	(34)	44
Deposit and fixed-income securities	(42)	303
Absolute return strategies	(286)	99
Canadian equities	(669)	398
Non-North American equities	(755)	30
United States equities	(928)	(301)
Net (loss) income	**$ (2,574)**	**$ 824**

Investment income (loss) by type is as follows:

	2009	2008
Interest, dividends, rental income and security lending income	$ 647	$ 678
Net realized (loss) gain on investments	(2,265)	435
Writedown of investments	(883)	(225)
Investment expenses (see Note 8)	(73)	(64)
Net (loss) income	**$ (2,574)**	**$ 824**

NOTE 8 INVESTMENT EXPENSES (in millions)

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by AIMCo are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2009	2008
Total Investment expenses	$ 73	$ 64
Percent of net assets at fair value	0.52%	0.38%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The Fund is expected to generate a long-term rate of return of 7.7%, which includes a real rate of return of 4.5% plus CPI of 2.2% and 1.0% from active management. The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return	Eight Year Compound Annualized Return	Ten Year Compound Annualized Return
Time-weighted rates of return				
Overall actual market value (loss) gain	-18.1%	2.6%	3.2%	3.5%
Benchmark return	-14.0%	2.9%	3.1%	3.4%
Value (lost) added from active management	-4.1%	-0.3%	0.1%	0.1%

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2009 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

Schedule A

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

MARCH 31, 2009

(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 145	$ 145	$ 59	$ 59
Fixed-income securities (a) (b)				
Corporate, public and private	3,050	2,843	3,405	3,306
Government of Canada, direct and guaranteed	204	234	991	1,016
Provincial, direct and guaranteed:				
Alberta	1	1	1	1
Other provinces	512	523	580	611
Loans	137	137	141	141
	3,904	3,738	5,118	5,075
Receivable from sale of investments and accrued investment income	42	42	87	87
Accounts payable and accrued liabilities	(93)	(93)	(47)	(47)
	(51)	(51)	40	40
	$ 3,998	**$ 3,832**	**$ 5,217**	**$ 5,174**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Government of Canada bonds has been reduced by the notional amount of Canada bond futures contracts totalling $406 million (2008: $nil).

(b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 7.2% per annum (2008: 5.2% per annum) and the following term structure based on principal amount:

	2009	2008
	%	%
under 1 year	5	4
1 to 5 years	36	28
5 to 10 years	27	39
10 to 20 years	15	11
over 20 years	17	18
	100	100

Schedule B

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

MARCH 31, 2009

(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 11	$ 11	$ 2	$ 2
Real estate (a)				
Office	474	813	451	778
Retail	386	525	369	545
Industrial	245	289	205	259
Residential	53	103	57	99
	1,158	1,730	1,082	1,681
Foreign Private Real Estate Pool	99	117	85	79
Participation units	65	65	63	63
Accrued income and accounts receivable	12	12	1	1
	$ 1,345	**$ 1,935**	**$ 1,233**	**$ 1,826**

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 669	$ 879	$ 643	$ 903
Alberta	339	662	295	599
Quebec	129	151	124	143
British Columbia	21	38	20	36
	$ 1,158	$ 1,730	$ 1,082	$ 1,681

Schedule C

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

MARCH 31, 2009

(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 66	$ 66	$ 61	$ 61
Public equities (a) (b)				
Consumer discretionary	112	93	161	132
Consumer staples	85	79	73	61
Energy	552	495	667	704
Financials	590	523	783	724
Health care	8	7	5	4
Industrials	136	116	147	140
Information technology	71	65	97	125
Materials	359	344	415	443
Telecommunication services	118	107	143	145
Utilities	36	29	24	22
	2,067	1,858	2,515	2,500
Pooled Funds	61	46	110	108
Receivable from sale of investments and accrued investment income	14	14	16	16
Accounts payable and accrued liabilities	(3)	(3)	(18)	(18)
	11	11	(2)	(2)
	$ 2,205	**$ 1,981**	**$ 2,684**	**$ 2,667**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and futures contracts totalling $1,243 (2008: $920).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule D

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 19	$ 19	$ 77	$ 77
Public equities (a) (b)				
Consumer discretionary	163	184	237	242
Consumer staples	209	239	246	262
Energy	213	245	294	328
Financials	226	243	437	441
Health Care	273	311	290	303
Industrials	189	209	317	330
Information technology	325	367	391	406
Materials	69	76	101	110
Telecommunication services	65	74	78	82
Utilities	83	92	95	99
	1,815	2,040	2,486	2,603
Pooled Funds	4	4	5	5
Receivable from sale of investments and accrued investment income	11	11	12	12
Accounts payable and accrued liabilities	(30)	(30)	(124)	(124)
	(19)	(19)	(112)	(112)
	$ 1,819	**$ 2,044**	**$ 2,456**	**$ 2,573**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and futures contracts totalling $1,794 (2008: $1,915).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule E

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 62	$ 62	$ 48	$ 48
Public equities (a) (b)				
Consumer discretionary	221	193	294	275
Consumer staples	244	213	218	220
Energy	230	201	223	216
Financials	460	392	563	521
Health care	228	198	206	182
Industrials	257	214	359	362
Information technology	149	125	166	153
Materials	155	143	234	240
Telecommunication services	192	169	198	197
Utilities	111	96	139	139
	2,247	1,944	2,600	2,505
Pooled funds	32	23	53	58
	2,279	1,967	2,653	2,563
Receivable from sale of investments and accrued investment income	42	42	39	39
Accounts payable and accrued liabilities	(51)	(51)	(48)	(48)
	(9)	(9)	(9)	(9)
	$ 2,332	**$ 2,020**	**$ 2,692**	**$ 2,602**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and futures contracts totalling $610 (2008: $545).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Japan	$ 514	$ 438	$ 525	$ 480
United Kingdom	477	399	599	543
France	257	220	286	282
Germany	180	153	246	244
Switzerland	163	148	161	168
Australia	121	110	105	106
Spain	92	80	108	115
Netherlands	70	61	107	103
Italy	72	61	91	90
Hong Kong	44	41	65	62
Other	289	256	360	370
	$ 2,279	$ 1,967	$ 2,653	$ 2,563

Schedule F

ALBERTA HERITAGE SAVINGS TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED MARCH 31, 2009

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted rates of return (in percent)	One Year Return 2009	5 Year Compound Annualized Return	8 Year Compound Annualized Return
Overall	**(18.1)**	**2.6**	**3.2**
Policy Benchmark	***(14.0)***	***2.9***	***3.1***
Value added (lost) from active management	**(4.1)**	**(0.3)**	**0.1**
Short-term fixed income	**2.6**	**3.1**	**3.1**
DEX 91-day T-Bill Index	*2.4*	*3.2*	*3.2*
Value added (lost) from active management	0.2	(0.1)	(0.1)
Absolute return strategies	**(23.8)**	**(0.9)**	**n/a**
HFRX Global Hedged Index	*(21.7)*	*(0.6)*	*n/a*
Value lost from active management	(2.1)	(0.3)	n/a
Long-term fixed income	**(3.2)**	**3.9**	**5.7**
DEX Universe Bond Index	*4.9*	*5.2*	*6.4*
Value lost from active management	(8.1)	(1.3)	(0.7)
Real estate	**4.8**	**16.5**	**13.3**
IPD Large Institutional All Property Index	*1.6*	*12.2*	*10.7*
Value added from active management	3.2	4.3	2.6
Private income	**10.3**	**13.9**	**n/a**
Consumer Price Index (CPI) plus 6%	*7.4*	*7.9*	*n/a*
Value added from active management	2.9	6.0	n/a
Timberland investments	**(7.4)**	**n/a**	**n/a**
CPI plus 4%	*5.4*	*n/a*	*n/a*
Value lost from active management	(12.8)	n/a	n/a
Canadian equities	**(33.1)**	**2.6**	**3.8**
S&P/TSX Composite Index	*(32.4)*	*2.8*	*4.0*
Value lost from active management	(0.7)	(0.2)	(0.2)
United States equities	**(30.4)**	**(7.6)**	**(6.6)**
S&P 1500 Index	*(23.9)*	*(5.3)*	*(5.3)*
Value lost from active management	(6.5)	(2.3)	(1.3)
Non-North American equities	**(37.0)**	**(2.8)**	**(2.5)**
MSCI EAFE Index	*(34.4)*	*(2.9)*	*(2.9)*
Value added (lost) from active management	(2.6)	0.1	0.4
Private equities	**(15.1)**	**6.5**	**n/a**
CPI plus 8%	*9.4*	*9.9*	*n/a*
Value lost from active management	(24.5)	(3.4)	n/a

FUND GOVERNANCE

- The Fund was established in 1976 and operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. On January 1, 1997, an amended Act was passed that sets out a revised investment framework for the Fund.

- The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the Business Plan and Annual Report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objective.

- The Ministry of Finance and Enterprise is responsible for the Fund and its investments. The Minister of Finance and Enterprise is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.

- The business plan of the Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province.

- Alberta Investment Management Corporation (AIMCo) manages the day-to-day investment operations of the Fund. AIMCo uses specialized external private sector managers for specific investment mandates.

Alberta Heritage Savings Trust Fund Standing Committee

Chair:	Heather Forsyth, MLA for Calgary-Fish Creek
Deputy Chair:	Doug Elniski, MLA for Edmonton-Calder
Members:	Hugh MacDonald, MLA for Edmonton-Gold Bar
	Alana Delong, MLA for Calgary-Bow
	Jonathan Denis, MLA for Calgary-Egmont
	Art Johnston, MLA for Calgary-Hays
	Darshan Kang, MLA for Calgary-McCall
	Laurie Blakeman, MLA for Edmonton-Centre
	Robin Campbell, MLA for West Yellowhead
Committee Clerk	Corinne Dacyshyn

Investment Manager
Dr. Leo de Bever, Chief Executive Officer,
Alberta Investment Management Corporation (AIMCo)

Auditor
Fred Dunn, FCA, Auditor General of Alberta

2008-09 BUSINESS PLAN SUMMARY

PURPOSE

The business plan of the Fund describes the statutory mission, investment goals, strategies and performance measures and policy benchmarks. The business plan is prepared annually and is published as part of the Provincial budget. The business plan is then reviewed and approved by the Minister of Finance and Enterprise, the Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

STATUTORY MISSION

The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

GOALS AND PERFORMANCE MEASURES

The three main goals of the Fund and their related performance measures, as outlined in the Fund's business plan, are as follows:

1. **Maximize long-term returns at a prudent level of risk.**

   - The investment income of the Fund is an important component of the government's fiscal plan. The net income of the Fund, except for amounts retained for inflation proofing, is transferred to the GRF and used to fund Albertans' priorities. The Fund must be invested in such a way as to maximize returns over the long-term while adopting a prudent investment strategy that balances the level of risk with the goal of high portfolio returns.

   - The Act provides for the maintenance of the Fund's real value by requiring the Heritage Fund to be inflation-proofed.

   Key Strategies
   - Maintain and implement an asset mix that targets maximum long-term returns. The Fund's Investment Policy Statement, established by the Minister of Finance and Enterprise, sets out the policy asset mix.
   - Periodically review asset mix to ensure it remains optimal for achieving the goal of maximizing long-term returns at a prudent level of risk.
   - Retain investment managers who employ active management strategies which add value above the benchmark without assuming undue risk.

Key Performance Measures

The table below describes the various types of investments (asset classes) the Fund can invest in according to the business plan. Each asset class is assigned a target asset mix representing its percentage of the overall portfolio and a policy benchmark representing a market-based index or other measure to which its actual return is compared. The overall policy benchmark return of the Fund represents the total of the weighted average benchmark returns for each asset class. The difference between the Fund's actual return and policy benchmark return represents the return from active management. The active management return is expected to be equal to or greater than 0.75% in 2008-09 increasing to 1.0% per annum in 2009-10. The asset mix return is used to determine whether the target asset mix as set out in the investment policy is achieving expected returns. The asset mix return is expected to exceed the Canadian Consumer Price Index (CPI) plus 4.5%.

Asset Class	Target Asst Mix 2008-09	Policy Benchmark Indices
Cash and Absolute Return Strategies		
Money market	1%	DEX 91-Day Treasury Bill
Absolute Return Strategies	6%	HFRX Global Investable Index - Hedged C$
Fixed income securities	24%	DEX Universe Bond Index
Inflation sensitive		
Real Estate	10%	Investment Property Databank (IPD) Large Institutional Index
Private income	6%	CPI plus 6%
Timberland	2%	CPI plus 4%
Equities		
Canadian	15%	Standard & Poor's/Toronto Stock Exchange (S&P/TSX) Composite Index
United States	15%	Standard & Poor's (S&P) 1500 Index
Non-North American	15%	Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index
Private equities	6%	CPI plus 8%
Total	100%	

2. Ensure the transparency of the Heritage Fund's objective and results for Albertans.

- Published reports and news releases will provide Albertans with access to information to enhance understanding of the Heritage Fund.

Key Strategies

- Release quarterly and annual reports on a timely basis in simple understandable language.
- Publish the Heritage Fund Business Plan annually.
- The Legislature's Standing Committee will hold annual public accountability meetings.

Key Performance measures

- Timeliness of reports and public accountability meetings.
- Annual report will be released by June 30 of each year.
- Quarterly reports will be released within two months after the end of each quarter.

GLOSSARY

ABSOLUTE RETURN STRATEGIES
Absolute Return Strategies (Hedge Funds) encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUAL ACCOUNTING
An accounting method that recognizes income when it is earned and expenses when they are incurred, rather than when they are received or paid.

ACTIVE STATEGIES
The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX
The percentage of an investment fund's assets allocated to major asset classes (for example 50% equities, 10% real estate, 30% fixed income and 10% alternative investments).

BENCHMARK
A standard against which actual returns are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND/DEBENTURE
A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

CAPITAL GAIN
The market value received on sale of an asset beyond its cost or purchase price. If the asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE
The value for which an asset was acquired.

DEPOSITS
Liquid, short-term investments. A cash equivalent.

DERIVATIVE CONTRACT
Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATON
Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

EMERGING MARKET
An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment.

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EQUITY
Stocks; the ownership interest in a company.

EXTERNAL MANAGER
A third-party firm contracted to provide investment management services.

FAIR VALUE
Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FIXED INCOME SECURITIES
Interest bearing investments such as bonds and debentures, and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)
The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Committee (ASC), that govern how businesses and governments report their financial statements to the public. The recommendations of the Public Sector Accounting Board (PSAB) of the CICA are the primary source for the disclosed basis of accounting.

INTEREST RATE SENSITIVE EQUITY
Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO
A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY
The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

MARKET VALUE
See fair value.

MARKET (VALUE) RATE OF RETURN
The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time-weighted method.

MARKETABLE SECURITY
An investment for which there is usually a ready market.

MODIFIED DURATION
A measure of price volatility of fixed income securities (i.e. bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY
A fixed income security that matures within one year form the date of acquisition.

NET INCOME
The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME
On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, includes in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN
A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE
A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES
These strategies involve investing to replicate the performance of a given market index such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

REAL VALUE OR REAL RATE OF RETURN
A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED
Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY
Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT
An investment with a maturity date of less than one year.

SHORT SELLING
A sale of securities not owned at the time of sale anticipating the price to fall and the securities to be repurchased at a profit. Short selling involves borrowing equivalent securities for delivery to a buyer and eventually buying the securities to return to the lender.

SMALL CAP
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY
The number of years left until a bond matures.

TIME-WEIGHTED RATE OF RETURN
Time-weighted rate of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

VOLATILITY
In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.